



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

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November 25, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. Fujioka", is written over the printed name and title.

RESPONSE TO THE AUGUST 20, 2013 BOARD MOTION REQUESTING ALL PARTIES TO REPORT TO THE BOARD ON ACTION TAKEN IN RESPONSE TO THE AUGUST 28, 2012 MOTION CONCERNING THE MEDICARE PART D DRUG SUBSIDY PROGRAM

This memorandum is in response to your motion of August 20, 2013, requesting the Chief Executive Office (CEO), with the assistance of the Auditor-Controller and the Treasurer and Tax Collector, to report to the Board on the action taken by all parties in response to the August 28, 2012, motion concerning the Medicare Part D Drug Subsidy program and an effort to achieve maximum possible cost recovery for the County. On September 19, 2013, February 20, 2014, and July 1, 2014, we submitted progress reports. This report is an update to those reports and is the final report on the topic.

The Los Angeles County Employees Retirement Association (LACERA) issued a Request for Proposal for Medicare Part D Retiree Drug Subsidy (RDS) Audit Services in August of 2013. LACERA staff subsequently evaluated the proposals received, and submitted the finalists to the Board of Retirement. At the January 15, 2014, meeting, the Board of Retirement conducted interviews. Milliman was selected by the Board to provide the Retiree Drug Subsidy Program reviews. Since the last update, Milliman has concluded their audit.

"To Enrich Lives Through Effective And Caring Service"

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For the 2008-2009 RDS plan year, Milliman's audits results determined:

Cigna – Actuarial consultants from Milliman found there were no compelling reason to reopen with Centers for Medicare Services (CMS). According to Milliman's analysis, their calculations reflected the subsidy as approximately \$4,000 less than the initial payment request and that more than likely, CMS would not approve the reopening. Therefore, Milliman recommended against LACERA requesting a re-opening with CMS for this plan.

Kaiser Permanente - Milliman found no issues in the process review and; therefore, recommended against LACERA requesting to re-open the 2008-2009 plan year.

For the 2005, 2006, 2007, 2008, 2010, 2011, 2012 RDS plan year, Milliman's audits results determined:

Anthem Blue Cross - Milliman completed their analysis of claims for the Anthem Blue Cross Plan I, II, III, and Prudent Buyer plans estimating that LACERA may be entitled to an additional subsidy of approximately \$5.7 million. As a result, they recommended re-opening the Anthem 2008-2009 plan year.

During the first quarter of 2014, prior to the start of Milliman's auditing of the RDS program, LACERA received notification from CVS Caremark that during the review process of the RDS contracts, the CVS Caremark mail order and specialty drug claims did not appear to be included in the reporting that Anthem Blue Cross submits to CMS on LACERA's behalf. Upon further investigation, it was confirmed that neither the mail order nor the specialty drug claims were included in our RDS filing for plan years 2006-2012. LACERA staff informed Milliman so that they would be aware of this issue while auditing the Anthem Blue Cross I, II, and III plans. In addition, staff immediately contacted and met with Anthem Blue Cross Vice President and General Manager who appeared before LACERA's Board of Retirement in September 2014, accepting responsibility for the error and asserting that the processing error which caused the issue had been fixed.

Anthem further committed to working closely with the teams (LACERA, CVS Caremark, and Milliman) to support re-opening past applications, as well as processes for current and future applications. Anthem provided the estimated magnitude of this error to be approximately \$32 million. Since confirmation of this error, LACERA has communicated with CMS informing them that in addition to the 2008-2009 plan year, we will be looking to also re-open additional plan years. The entire team (LACERA, CVS Caremark, and Milliman) have been collaboratively working to calculate and submit re-opening requests

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for the other plan years (2005-2012). Thus far, the team has completed 2008-2009 and has received CMS' approval to re-open this plan year.

Significant progress continues to be made on LACERA's Retiree Drug Subsidy program. We will continue to update the Board of Supervisors on the progress. If you have any questions regarding this matter, please contact Maryanne Keehn at (213) 974-0470.

WTF:BC:JA
MTK:mst

c: John Naimo, Auditor-Controller
Mark Saladino, Treasurer and Tax Collector
Gregg Rademacher, LACERA